

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 TRSE-00 EB-08 LAB-04 SIL-01 COME-00
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O 251733Z AUG 78
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 3078

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E.O. 11652: NA
TAGS: EFIN, JM
SUBJECT: IMF COMPLIANCE

REF: STATE 212111

1. STATUS OF WAGE NEGOTIATIONS, PARTICULARLY IN BAUXITE INDUSTRY

A. AGREEMENT ON WAGES IN BAUXITE INDUSTRY WAS REACHED IN A NEGOTIATING SESSION THAT TOOK PLACE A MONTH AGO AT WHICH MR. WILLIAM ISAACS, MINISTER OF LABOUR, MR. HORACE CLARKE, MINISTER OF PUBLIC UTILITIES AND TRANSPORT, AND DR. HEADLEY BROWN, TRADE ADMINISTRATOR, WERE PRESENT. THE AGREEMENT INVOLVED A THIRTY-TWO MONTH CONTRACT AND WAS INDUSTRY WIDE. THE CONTRACT INVOLVES A 15.3 PERCENT INCREASE IN THE FIRST YEAR OF THE CONTRACT, 6.3 PERCENT IN THE SECOND AND 10 PERCENT DURING THE REMAINING EIGHT MONTHS OF THE THIRTY-TWO MONTH CONTRACT. THE SETTLEMENT IS CLEARLY WITHIN THE AGREED WAGE GUIDELINES WHICH PERMIT AN ANNUAL WAGE INCREASE OF 15 PERCENT OVER THE NEXT THREE YEARS.

B. ALPART HAD SOME SPECIAL PROBLEMS WHICH DELAYED THEIR RATIFICATION. THESE HAVE BEEN WORKED OUT AND ALPART SIGNED ON AUGUST 22. THE AGREEMENT HAS NOT YET BEEN ANNOUNCED AND SHOULD BE TREATED AS CONFIDENTIAL UNTIL IT IS -- POSSIBLY IN A FEW DAYS.

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C. UNIONS HAVE SHOWN SURPRISING RESTRAINT IN RECENT MONTHS. FOLLOWING THE ANNOUNCEMENT OF THE GOJ-IMF AGREEMENT IN MAY, THE UNIONS PROTESTED VIOLENTLY AGAINST THE ANNOUNCED GUIDELINES AND PRICE INCREASES WHICH ENTAILED A DRASTIC REDUCTION IN REAL WAGES. FOLLOWING SOME SHORT-LIVED STRIKES, WORKERS GENERALLY AGREED TO RETURN TO WORK WHILE THE DISPUTES WERE REFERRED TO THE TRIBUNAL

AND MINISTRY OF LABOUR FOR ARBITRATION. THE MINISTER OF LABOUR HAS TAKEN A STRONG STAND AGAINST SETTLEMENTS EXCEEDING THE WAGE GUIDELINES. THERE ARE NO MAJOR STRIKES AT PRESENT, THOUGH THERE ARE A NUMBER OF UNRESOLVED DISPUTES THAT COULD YET DEGENERATE INTO STRIKES -- PARTICULARLY AT AIR JAMAICA AND IN THE GAS & OIL TRUCKING BUSINESS. HOWEVER, CHANCES OF AVOIDING A WAGE PRICE SPIRAL THAT MIGHT GET OUT OF CONTROL APPEAR BETTER AT PRESENT THAN THEY DID TWO MONTHS AGO.

2. GOJ EFFORTS TO KEEP EXPENDITURES WITHIN BUDGET GUIDELINES

A. OFFICIAL OF CENTRAL BANK HAS INFORMED AID ECONOMIC ADVISOR THAT BUDGETARY ALLOCATIONS ARE CURRENTLY RUNNING AT A RATE OF J\$100 MILLION A MONTH, SUBSTANTIALLY BELOW THE LEVEL CONSISTENT WITH THE AGREED J\$1.8 BILLION BUDGET FOR FY 79. THE CUTBACK REFLECTS IN PART DELAYS IN PROJECT IMPLEMENTATION AND IN PART THE FEAR THAT GOVERNMENT REVENUES MIGHT NOT MEET THE AMBITIOUS TARGETS SET.

B. DATA FOR THE FIRST QUARTER OF THE GOJ FISCAL YEAR (APRIL-JUNE) SHOW TOTAL ACTUAL EXPENDITURES OF J\$326 MILLION COMPARED WITH J\$242 MILLION FOR APRIL-JUNE OF 1977, AN INCREASE OF 35 PERCENT. IF DEBT SERVICE CHARGES ARE NETTED OUT, THE INCREASE IS 26 PERCENT. NOTE THAT TOTAL EXPENDITURES FOR THE FISCAL YEAR AS A WHOLE IN THE AGREED BUDGET REPRESENT AN INCREASE OF 43 PERCENT OVER THE BUDGET FOR FY 1978. THUS, ACTUAL EXPENDITURES DURING THE FIRST QUARTER LIMITED OFFICIAL USE

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ARE SOMEWHAT BELOW THE LEVEL CONSISTENT WITH THE APPROVED BUDGET. HOWEVER, A CATCHING-UP EFFECT MUST BE EXPECTED LATER THIS YEAR OWING TO THE ACCELERATION OF PRICE INCREASES RELATED TO DEVALUATION WHICH HAVE NOT AFFECTED EXPENDITURES DURING THE FIRST QUARTER, BUT WILL IMPACT HEAVILY ON BUDGETARY REQUIREMENTS DURING THE BALANCE OF THE FISCAL YEAR.

3. REVENUE PERFORMANCE

TAX COLLECTIONS WERE QUITE SATISFACTORY DURING THE FIRST QUARTER OF FY 79 - UP BY 27 PERCENT COMPARED WITH THE FIRST QUARTER OF FY 1978. THE TARGET FOR THE FISCAL YEAR AS A WHOLE CALLS FOR A VERY SUBSTANTIAL (48 PERCENT) INCREASE IN TAX COLLECTIONS OVER FY 78. NOTE THAT THE PACKAGE OF NEW TAX MEASURES WAS NOT YET IN EFFECT DURING THE FIRST QUARTER OF FY 79. HOWEVER, THERE IS SOME DOUBT AS TO WHETHER THIS AMBITIOUS REVENUE TARGET CAN BE ATTAINED.

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4. SUCCESS OF GOJ TO COMPLY WITH OTHER ASPECTS OF IMF
AGREEMENT

AM DATA ON THE SELECTED PERFORMANCE CRITERIA SET IN THE
IMF-GOJ AGREEMENT ARE PRESENTED IN THE ATTACHED TABLE. NOTE THAT
WITH RESPECT TO CRITERIA 3 AND 4 -- NET DOMESTIC ASSETS OF THE
BANK OF JAMAICA AND NET BANK CREDIT TO THE PUBLIC SECTOR 11 THE
ACTUAL AMOUNTS OUTSTANDING AS OF JUNE 30 WERE WELL BELOW THE
CEILINGS SET FOR SEPTEMBER 30 AND DECEMBER 31, WHICH SUGGESTS
THAT THE GOJ SHOULD HAVE NO GREAT DIFFICULTY IN MEETING THESE
PARTICULAR TARGETS.

B. ON THE ONTHER HAND, THE SEPTEMBER 30 CEILINGS ON NET FOREIGN
ASSETS AND OUTSTANDING ARREARS CALL FOR A REDUCTION OF US\$18
MILLION IN THE NET FOREIGN LIABILITIES OF THE BANK OF JAMAICA
IN COMPARISON WITH THE ACTUAL AMOUNT OUTSTANDING ON JUNE 30 (SEE
TABLE). THE NET FOREIGN ASSETS CONCEPT INCLUDES OUTSTANDING
ARREARS (SEE CRITERION 2 IN TABLE) WHICH ARE SCHEDULED TO
DECLINE BY US\$19 MILLION BETWEEN JUNE 30 AND SEPTEMBER 30.
CENTRAL BANK TECHNICIANS EMPHASIZE THAT THE ABILITY OF THE
GOJ
TO MEET THESE IMF TESTS WILL DEPEND IN A MAJOR WAY ON THE OUTCOME
OF THE GOVERNMENT'S EFFORTS TO NEGOTIATE
THE BANK LOANS AND DRAW DOWN THE LINES OF CREDIT THAT ARE PROVIDED.
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A MAJOR ASSUMPTION OF THE PROGRAM WAS THAT FOREIGN BANKS WOULD
CONTINUE TO MAINTAIN THEIR EXPOSURE, WHICH MEANS THAT SOME \$70
MILLION IN LOANS WOULD BE NEGOTIATED TO OFFSET REPAYMENTS DUE. OF
THIS
\$70 MILLION PACKAGE, SOME \$30 MILLION WERE TO BE OBTAINED THIS

QUARTER. THE BANK OF JAMAICA (BOJ) HAS ENCOUNTERED DIFFICULTIES IN NEGOTIATING THE LOANS IN SPITE OF WHAT THEY CONSIDER TO BE DEFINITE COMMITMENTS ON THE PART OF THE BANKS.

C. THE BOJ ALSO REPORTS DIFFICULTY IN DRAWING DOWN THE LINE OF CREDIT PROVIDED BY THE U.S. UNDER THE COMMODITY IMPORT PROGRAM. IN ORDER TO OBTAIN CASH IMMEDIATELY, IT HAD BEEN HOPED THAT REIMBURSEMENT COULD BE OBTAINED FOR ELIGIBLE COMMODITY IMPORTS REALIZED AFTER NOVEMBER 1, 1977. HOWEVER, SUCH REIMBURSEMENTS ARE IMPEDED BY THE DIFFICULTY OF OBTAINING FROM SUPPLIERS THE NECESSARY DOCUMENTATION WITH RESPECT TO OBSERVANCE OF THE US SOURCE AND ORIGIN AND "FAIR PRICING" PROVISIONS. EFFORTS TO OVERCOME THE OBSTACLES AND STEP-UP THE RATE OF UTILIZATION OF THE CIP ARE CONTINUING.

D. IMMEDIATELY UTILIZABLE ADDITIONAL LINES OF CREDIT BY THE GOJ WERE OBTAINED AS FOLLOWS (IN MILLIONS OF US\$): CANADA 7; U.K. 10; FRANCE 5, NETHERLANDS 5, VENEZUELA 5; OPEC COUNTRIES⁴. HOWEVER, THESE DO NOT SUFFICE TO COVER THE GAP.

E. IN CONCLUSION: GOJ'S ABILITY TO MEET IMF SEPTEMBER 30 AND DECEMBER 31 TARGETS APPEARS TO HINGE ALMOST ENTIRELY ON THE GOVERNMENT'S OBTAINING BANK LOANS AND STEP-UP THE RATE OF UTILIZATION OF AVAILABLE LINES OF CREDIT. IT IS NOT LIKELY THAT EXTERNAL CREDITS WILL BE FORTHCOMING AT THE LEVEL NECESSARY, PARTLY BECAUSE OF DIFFICULTIES ASSOCIATED WITH ARRANGING RAPID USE OF THESE CREDITS.

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5. ADDITIONAL COMMENTS:

A. THE BOJ IS ENCOUNTERING MAJOR DIFFICULTIES IN MEETING THE VARIOUS CLAIMS FOR FOREIGN EXCHANGE PLACED UPON IT. ON THE ONE HAND, IT HAS NOT BEEN ABLE SO FAR TO OBTAIN THE BANK LOANS IT HAS COUNTED ON, AS REPORTED ABOVE. ON THE OTHER HAND, IT MUST REDUCE THE SUBSTANTIAL AMOUNT OF ACCUMULATED ARREARS BOTH IN ORDER TO MEET THE IMF TESTS AND TO RESTORE ITS CREDIT STANDING WITH SUPPLIERS AND BANKS. SIMULTANEOUSLY, IT FACES SUBSTANTIAL CLAIMS FOR THE FINANCING OF NEW IMPORT LICENSES FOR RAW MATERIALS, SPARE PARTS AND FOODSTUFFS TO MEET URGENT CURRENT NEEDS AND RESTORE DEPLETED INVENTORIES. IF NOT MET, THERE WILL BE SERIOUS SHORTAGES AND DECLINES IN OUTPUT AND EMPLOYMENT. THUS, IN SPITE OF THE IMF AGREEMENT AND GOJ BEST EFFORTS, THE COUNTRY'S FOREIGN EXCHANGE SITUATION REMAINS MOST PRECARIOUS.

B. INDICATIONS ARE THAT THE PRIVATE SECTOR CONTINUES TO REMAIN DEPRESSED. FOREIGN EXCHANGE HAS NOT BEEN AVAILABLE TO IMPORT THE NECESSARY RAW MATERIALS, NOT EVEN FOR EXPORT. COSTS HAVE RISEN SHARPLY AS A RESULT OF THE DEVALUATION AND HIGHER TAXES. THE

AUSTERITY PROGRAM HAS DEPRESSED INCOMES AND EFFECTIVE DEMAND, SO THAT HIGHER COSTS AND PRICES HAVE RESULTED IN A REDUCTION IN SALES. INTERVIEWS WITH PRIVATE SECTOR REPRESENTATIVES SUGGEST THAT INCREASES IN OUTPUT ARE NOT LIKELY TO OCCUR IN THE NEAR FUTURE.

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GIVEN THE PRESENCE OF SUBSTANTIAL UNUSED PLANT CAPACITY, THE OUTLOOK FOR INCREASED INVESTMENT IS DIM.

C. ONE ENCOURAGING ASPECT OF THE SITUATION IS THAT THE DANGER OF WAGE-PRICE INCREASES SPIRALLING OUT OF CONTROL HAS NOT MATERIALIZED SO FAR. WITH EVERY PASSING MONTH, HOPE THAT THIS DEVELOPMENT CAN BE AVOIDED INCREASES. THERE NOW APPEARS TO BE A REASONABLE CHANCE THAT THE RATE OF PRICE INCREASE, UP SHARPLY IN 1978, WILL DIMINISH IN 1979 AS ANTICIPATED IN THE AGREEMENT.

IMF FACILITY - PERFORMANCE CRITERIA

	1978		1979		
INDICATORS	MAR 31	JUN 30	SEP 30	DEC 31	MAR 31
1. NET FOREIGN ASSETS					
OF BOJ# (US\$MN.)					
CEILING	-	-335.0	-300	-300	-280
ACTUAL	-317	-318.3			
2. OUTSTANDING					
ARREARS (US\$MN.)					
CEILING	-	80	60	40	20
ACTUAL	82	79.2			
3. NET DOMESTIC ASSETS					
OF BOJ (J\$MN.)					
CEILING	-	440	445	480	473

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ACTUAL 403 405.2

4. NET BANK CREDIT TO

PUBLIC SECTOR (J\$MN.)

CEILING - 930 101 1110 1041

ACTUAL 841 856.8

#INCLUDING OUTSTANDING ARREARS.

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1623319
Secure: OPEN
Status: NATIVE
Subject: IMF COMPLIANCE
TAGS: EFIN, ELAB, EIND, JM, IMF
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/df34105c-c288-dd11-92da-001cc4696bcc
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